Richard Bernstein Advisors

Pactive® Approach to Investing

RBA Special Report - The Morning After

November 6th, 2024

As we have done in the past after a Presidential election, here are ten quick investment thoughts.

We previously highlighted (see "Fade the Election" and "Fade the Election – Part 2: Debt & Deficits") that what is anticipated at this stage of the election cycle often doesn't come to fruition, so one should take these ideas with proper skepticism.

Importantly, these comments do not suggest we think any policies are particularly good or bad. We are simply dispassionately offering some thoughts that seem unlikely to appear in the broader discussion.

1. Deglobalization remains our primary secular investment theme. Adding to a decade of outperformance, US small/mid-cap Industrials could be major beneficiaries of the new administration.

2. Tariffs and movement to less efficient production suggest investors should position for higher secular inflation. Accordingly, bond market volatility is unlikely to subside. Truly tactical fixed-income investing could gain in importance.

3. The debt and deficit issues will likely remain. There seems to be little enthusiasm regarding raising taxes and cutting spending, so US Treasury spreads versus AAA sovereign bonds will likely persist and could widen.

4. Fiscal largess should normally be met with tighter monetary policy, but that hasn't been the Fed's plan over the past several years and seems unlikely to be so going forward.

5. The US dollar could be in a strange limbo. A stronger USD might be needed to finance further deficit spending, but a strong dollar could hurt exports. However, a lack of fiscal and monetary discipline could weaken the dollar, which might help exports but hinder financing.

6. The risk to European stocks could increase as solutions to the Ukraine/Russia war might exclude NATO.

7. The risk to Taiwan is probably somewhat overstated, but the risks to various other Asian nations bordering the South China sea could be greater than is currently anticipated. EM investing could present country- or region-specific risks and opportunities.

8. Energy seems attractive with respect to inflation, but Energy was the worst performing sector during the 2016-2020 period. The US remains highly dependent on foreign oil because the US doesn't have refineries that can process shale oil. Virtually all shale oil is for export and not for domestic use.

9. States rights could alter a broader set of laws. That could spur population relocation to more socially progressive or conservative states, and might impact the housing, real estate, and municipal bond markets.

10. Cryptocurrencies remain highly speculative and a significant source of illegal monetary transactions. Government enthusiasm, however, could keep this game alive and, oddly enough, undermine the USD.

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